

## The tobacco-tax rollback may end the smuggling, but what will it do to our health?

Charlotte Gray

**Résumé :** La décision du gouvernement fédéral de réduire les taxes sur le tabac afin d'éteindre la contrebande des cigarettes a provoqué une foule de critiques. On a prédit notamment qu'il y aurait des milliers de nouveaux fumeurs chez les adolescents. On craint aussi les répercussions à long terme que cette décision aura sur le système de soins de santé. Il a toutefois une bonne chose à tout cela : il est peu probable que le fédéral sous-estime les répercussions sur la santé d'initiatives gouvernementales à venir et il essaiera peut-être d'apaiser le lobby antitabac en intervenant énergiquement sur d'autres fronts, notamment en imposant la banalisation des paquets de cigarettes.

What the federal government would really like, confided a senior adviser in the Prime Minister's Office, "is a study that showed cigarette sales to school kids had dropped, now that they can't buy contraband smokes from vans parked outside schoolyards."

Such a study might wipe some of the egg from the government's face after the public-relations dam-

age caused by February's tobacco-tax rollback. For the new Liberal government, the tobacco-smuggling issue had lain like an unexploded bomb since the October election. The issue had festered for months as tobacco smuggling, primarily through native reserves along the St. Lawrence River, increased. The former Conservative government had ignored the problem rather than clash with smugglers, who are thought to be most heavily concentrated in a reserve near Cornwall, Ont.

By 1994, the problem was out of hand. Two-thirds of the cigarettes sold in Quebec and one-third of those sold in Ontario were contraband. Tobacco smuggling had mushroomed into a \$5-billion-a-year business, with more than 2 million Canadians buying their cigarettes on the black market.

Shortsightedly, the Liberals treated the issue as a tax problem rather than a policy challenge that had many implications. On Feb. 8, Ottawa cut the federal tax on a carton of cigarettes from \$15.85 to \$5.85. When combined with related cuts in the provincial tax and goods and services tax, it meant that the price of a "legal" carton of 200 cigarettes sold in Quebec — the first province to slash prices — fell from \$47 to \$22.73 overnight. Pressure to take similar action mounted in neighbouring New Brunswick and Ontario, and in short order they were

forced to follow suit. (Before the tax reduction in Ontario, illegally imported smokes could be bought for \$25 a carton within blocks of CMA House.)

There is little doubt that the moves cut the knees from under the smugglers. But did the move also cut the knees from under smoking-prevention groups?

The government defended itself by arguing that in today's integrated marketplace, a huge difference between US and Canadian prices for any commodity is unsustainable. Just as income-tax regimes on both sides of the border have been progressively harmonized over the past decade, so will consumption-tax regimes converge. "It's like Prohibition in the United States," was a favourite line from the federal Department of Finance. "Law enforcement alone is insufficient to deal with smuggling when you've created the ideal conditions for it."

For Dr. Mark Taylor, however, the government's actions were inexplicable and unforgivable. Taylor, the president of Physicians for a Smoke-free Canada, says that "in the health industry we now have a very deep level of cynicism about the present government's commitment to health. The prime minister signalled that health was a low priority when he appointed Diane Marleau as minister of health. And Paul Martin walked straight off the board of Imasco [the company that controls

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Imperial Tobacco Ltd.] into the office of minister of finance. [If someone] is willing to serve on the board of directors of a company that makes money by killing people, [it] tells you a lot about their moral fibre."

University of British Columbia economist Robert Allen has estimated that if every province followed the lead of Quebec and slashed the price of cigarettes, an additional 245 000 teenagers will begin smoking. The potential future cost to Canada's health care system remains unmeasured.

Taylor agrees that if Ottawa remained unwilling to tackle smuggling on native reserves, the tax gap between Canada and the US was unsupportable. But he gives the government no credit for the other steps it has taken to mitigate the tax cut's health impact — steps such as an export tax of \$8 per carton of cigarettes and a multimillion-dollar antismoking advertising blitz. "The whole crisis was manufactured by the tobacco companies," says Taylor, "and they have got the entire result they wanted." (For Taylor, who is now training in thoracic surgery in Toronto, this is a personal issue. A former navy general surgeon, he has firsthand experience dealing with the end results of smoking.)

The federal government's anti-smoking initiatives looked even less convincing in March when a new study revealed that antismoking campaigns have little effect on the behaviour of young smokers. According to a federally commissioned study, teenagers ridicule the "break-free" commercials seen on television, describing them as "stupid" and "unreal." The study casts doubt on the government's plans to spend a further \$185 million on antismoking education and advertising.

What lessons can be drawn from the tobacco-tax rollback, beyond the conclusion that Ottawa is more sensitive to fiscal than health issues?

The government is unlikely to underestimate the health impact of its initiatives in the future. Part of

the problem last February was that Health Canada was caught off guard. The department, which has still not recovered from severe cutbacks made during last summer's reorganization of federal departments, had little impact on development of the February policy package. The new minister, Diane Marleau, handled the issue very poorly: both publicly and privately, she failed to champion the health side of the debate. (Fisheries Minister Brian Tobin, a former smoker, is said to have led the argument against a tax rollback in cabinet.) Rumours are already rife that Marleau will not survive the first cabinet shuffle of the Chrétien regime. Her parliamentary secretary, Dr. Hedy Fry, is mentioned as a possible successor.

The tobacco tax has taught health care groups a painful lesson: it is never too early to start lobbying. "We had an inkling that a tax rollback was being considered," admits Taylor, "but we never believed the government would do it. We should have started lobbying against it as soon as the Liberals were elected — that's what the tobacco companies did. And they won."

Taylor and his colleagues in the antismoking movement suggest that the rollback may have some positive fallout. "The government is now so eager to show that it won't crumble under tobacco-industry pressure that we may actually see actions that were unthinkable a year ago," he says. The possibilities include a requirement that cigarettes be sold in plain packages and the regulation of tobacco products under the Hazardous Products Act or its equivalent.

Once the government has regulatory authority over a product, says Taylor, "the sky's the limit" in terms of regulatory requirements. The cigarette manufacturers could be required to list all ingredients, including toxic pesticides, to eliminate burn enhancers, and to reduce each year the nicotine levels in cigarettes.

In the medium term, the government would like to demonstrate that the impact of the rollback is not

as disastrous as the health lobby claims. If the number of teenage smokers does not rise, it will be able to claim that availability, as well as price, determines smoking patterns. It would also like to argue that the tax revenue that is forgone is more than recouped by the elimination of smuggling. A Quebec poll in early March suggested that 78% of those who had been buying contraband cigarettes had returned to smoking cigarettes bought legally.

The most useful initiative in the continuing battle against smoking would be a price rise south of the border, where cigarettes remain cheaper because of lower taxes. Canadian health care activists keep urging Ottawa to lobby Washington for higher tobacco taxes. This would fit with President Bill Clinton's avowed intent to use higher tobacco tax revenues to finance his health care reforms. However, in the babble of special-interest pleas on Capitol Hill, where the tobacco industry is even more powerful than in Canada, it will be hard for Canada to make itself heard on this issue.

For Taylor, the single greatest frustration following the February rollback is that his medical colleagues took so little action. Even though groups within organized medicine, including the CMA, made their opposition to the tax cut known, when February rolled around many doctors were more concerned about rumours that the budget would lower the limits on registered retirement savings plan (RRSP) contributions than about the reduction in tobacco taxes.

Three MPs told me that several physicians called them about RRSP limits, but not one called to complain about the tobacco-tax rollback.

Taylor sighs when he hears this. "I'm afraid that most doctors are more concerned with their economic self-interest than with health issues. Rather than get pissed off, I try to work around this. But if every MP had heard from two or three doctors on this issue, we could have made a significant difference." ■